

UmweltBank AG*5a;7;11

Rating: HOLD
Target Price: 21.00 €
(until now: 20.73 €)

Current share price: €21.50
 24.09.21 / XETRA / 2:13 pm
 Currency: EUR

Key Data:

ISIN: DE0005570808
 WKN: 557080
 Ticker symbol: UBKG
 Number of shares³: 31,01
 Marketcap³: 666,72
³ in Mio. / in Mio. EUR
 Freefloat: 85 %

Level of transparency:
 Freiverkehr
 Market segment:
 m:access
 Accounting standard:
 HGB

Financial-year end: 31.12.

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* Catalogue of possible conflicts of interest on page 9

Date (time) completion:
 24.09.21 (3:10 pm)

Date (time) first distribution:
 27.09.21 (09:30 am)

Target price valid: until max.
 31.12.2022

Company profile

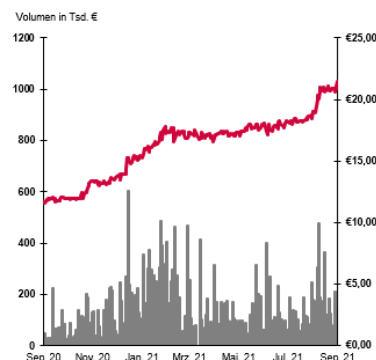
Industry: Financial services
 Focus: ecological investments, financing environmentally friendly projects

Employees: 278 (30.06.2021)

Foundation: 1997

Company headquarters: Nuremberg

Board of Directors: Goran Bašić, Jürgen Koppmann



UmweltBank AG stands for banking with ecological and social responsibility. It offers investors transparent ecological financial investments and supports private individuals and commercial customers throughout Germany by financing environmentally friendly projects. By exclusively offering a green product range, UmweltBank AG consistently implements its ecological orientation. In addition to their classic savings account, the company offers, among other things, green fund products, enters into ecological participations, offers ecological insurance and finances green projects. In doing so, UmweltBank AG acts as a direct bank, without a classic branch business. Since its foundation in 1997, more than 23,800 credit projects have been supported. At the end of 2020, environmental loans (including open commitments) had a total volume of 3.5 billion euros. The majority of the credit volume consists of solar energy financing, residential real estate and wind power projects.

P&L in € million	FY 2020	FY 2021e	FY 2022e	FY 2023e
Interest income	69.08	77.21	78.75	81.11
Interest result	52.10	58.93	60.36	62.68
Other income	15.15	13.10	13.25	13.50
Net profit for the year	26.50	26.97	28.00	29.21

Key figures in EUR				
EPS	0.85	0.87	0.90	0.94
Dividend per share	0.33	0.33	0.35	0.35

Balance sheet key figures in € million				
Customer deposits	2,694.11	2,919.78	2,978.18	3,067.52
Credit volume	2,792.66	3,071.93	3,133.37	3,227.37
Total capital	408.40	425.14	442.29	460.65
Return on capital (before taxes)	13.0%	12.8%	12.6%	12.5%
Cost-income ratio	43.5%	44.7%	43.7%	43.3%

Financial calendar

07.12.2021: MKK

****last research from GBC:**

Date: Publication / Target price in EUR / Rating

13.07.2021: RS / 20.73 / BUY

15.02.2021: RS / 18.21 / BUY

03.09.2020: RS / 14.50 / BUY

The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg, Germany.

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H1 2021: Business volume significantly increased, forecasts and target price slightly raised, rating reduced to HOLD after strong share price performance

in € m	1st HY 18	1st HY 19	1st HY 20	1st HY 21
Interest, financial and valuation result	26.09	30.25	26.03	34.16
Net commission and trading income	1.18	2.19	2.38	3.77
Personnel and administrative expenses	9.07	10.63	12.81	15.82
Result for the period	12.42	15.29	14.52	14.40

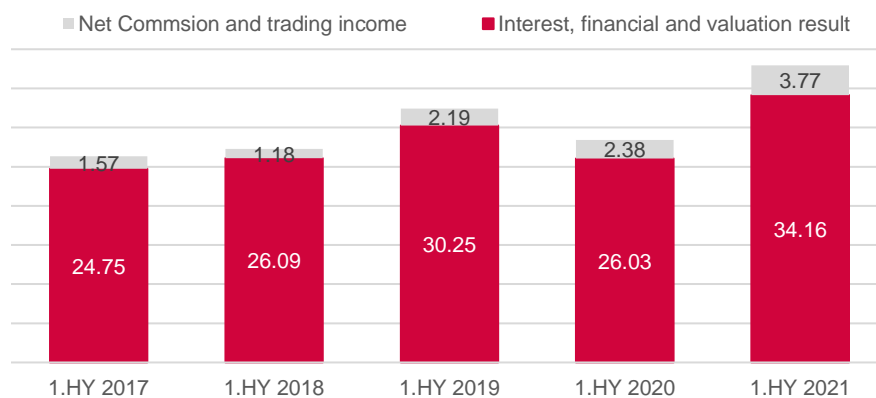
	31.12.18	31.12.19	31.12.20	30.06.21
Business volume	4,119	4,518	5,393	6,157
Balance sheet total	3,699	4,095	4,944	5,545
Customer deposits	2,330	2,529	2,694	2,850
Environmental credits	2,895	3,156	3,503	3,720
Own funds, regulatory	334	378	408	410
Own funds ratio, regulatory	14.0%	14.5%	14.6%	14.3%
Common equity tier 1 ratio, regulatory	9.3%	10.0%	9.8%	9.7%

Source: UmweltBank AG; GBC AG

The increase in business volume, i.e. total assets plus contingent liabilities and other obligations, forecast by the Umweltbank management was impressively confirmed with the presentation of the 2021 half-year figures. Compared to the end of the 2020 financial year, the business volume increased significantly by +14.2% to € 6.16 billion (31.12.20: € 5.39 billion). The bank had originally anticipated an increase in business volume to € 5.8 billion by the end of the 2021 financial year.

The strong growth in the volume of new loans of around € 400 million is particularly noteworthy. According to company information, a strong increase in new financing was achieved compared to the same period of the previous year, so that the outstanding loan volume visibly increased to € 3.72 billion (31.12.20: € 3.50 billion). This has led to a significant increase in the interest, financial and valuation result of 31.2 % to € 34.16 million (previous year: € 26.03 million). We assume that this is primarily due to a strong increase in net interest income (interest income from lending business less interest expense from deposit business).

Income on a half-year basis (in € million)



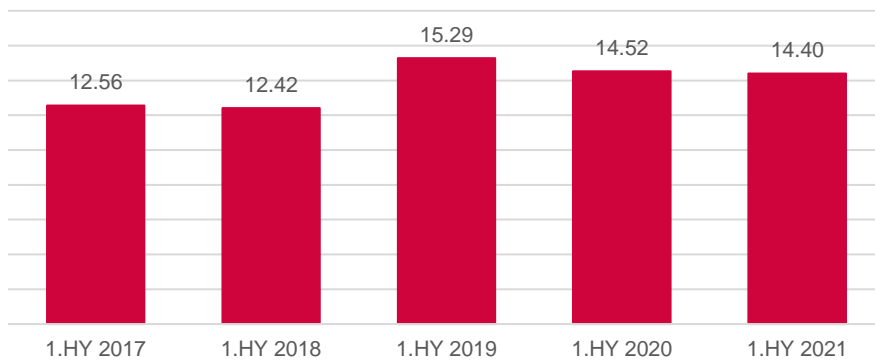
Source: UmweltBank AG; GBC AG

At the same time, UmweltBank AG benefited from positive development in the securities business, so that net commission income and net trading income also increased significantly to € 3.77 million (previous year: € 2.38 million). In our opinion, this should reflect the success of their own first fund, UmweltSpektrum Mix, launched in February 2020. While

the fund volume at the end of the past financial year 2020 was still around € 42 million, it climbed to € 72 million at the end of the reporting period. In the first six months of 2021, the fund achieved a positive performance of +12.8%.

The fact that the after-tax result of € 14.40 million (previous year: € 14.52 million) was only constant despite the significant increase in the income components is attributable to two factors. On the one hand, UmweltBank AG received one-off special income of € 4.16 million plus 5 % in the first half of 2020 in the course of a settlement of a legal dispute. In addition, as had been expected in advance, the number of employees was further increased to 278 (previous year: 234), as a result of which personnel expenses and administrative expenses increased significantly to a total of € 15.82 million (previous year: € 12.81 million).

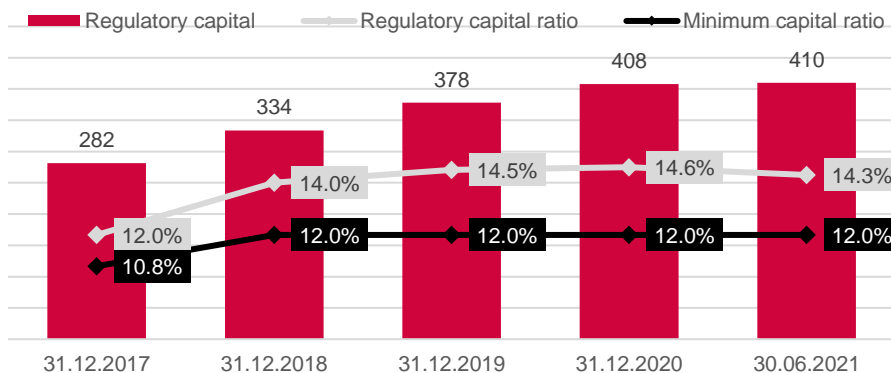
Result for the period (in € million)



Source: UmweltBank AG; GBC AG

In line with the positive after-tax result, but after deduction of the dividend payment of € 10.23 million made in the first half of the year, regulatory equity improved to around € 410 million (31.12.20: € 408 million). With a regulatory capital ratio of 14.3 % (31.12.20: 14.6 %), the regulatory requirement of 12.0 % is still clearly exceeded.

Total capital (in € million) and total capital ratio (in %)



Source: UmweltBank AG; GBC AG

Forecast FY 2021e - 2023e

in € m	FY 2020	FY 21e (old)	FY 21e (new)	FY 22e (old)	FY 22e (new)	FY 23e (old)	FY 23e (new)
Interest income	69.08	74.69	77.21	77.68	78.75	80.01	81.11
Interest expenses	16.97	17.88	18.28	18.34	18.40	18.38	18.43
Interest result	52.10	56.82	58.93	59.34	60.36	61.63	62.68
Other income	15.15	11.98	13.10	12.03	13.25	11.99	13.50
Total expenditure*	46.38	47.72	50.64	48.79	50.82	49.43	51.65
EBT*	37.85	38.95	39.67	40.93	41.18	42.57	42.96
EAT*	26.50	26.48	26.97	27.83	28.00	28.95	29.21
EPS in €	0.85	0.85	0.87	0.90	0.90	0.93	0.94
Dividend in €	0.33	0.33	0.33	0.35	0.35	0.35	0.35
Customer deposits	2,694.11	2,855.76	2,919.78	2,969.99	2,978.18	3,059.09	3,067.52
Credit volume	2,792.66	2,960.22	3,071.93	3,078.63	3,133.37	3,170.99	3,227.37
Total capital	408.40	424.65	425.14	441.63	442.29	459.73	460.65

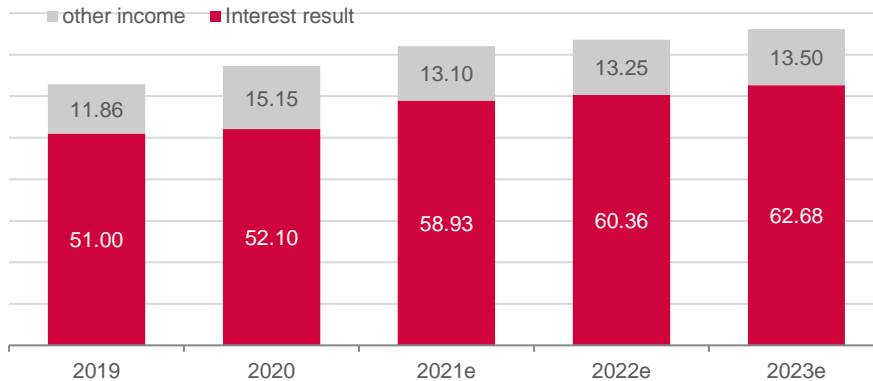
Source: GBC AG; *without allocation to the fund for general banking risks

In the first six months of 2021, UmweltBank AG achieved an unexpectedly strong increase in business volume and thus in total income. The business volume of € 6.16 billion at the end of the first half of the year is already well above the previous guidance, which had forecast an increase in business volume to € 5.8 billion by the end of the current financial year 2021. With the publication of the half-year figures, the UmweltBank management has now raised its guidance and expects an increase to € 6.4 billion by the end of the financial year. This should naturally be accompanied by a significant increase in total income, which should receive additional impetus from their success in asset management and the investment business.

Despite the resulting increase in earnings expectations, the management of UmweltBank AG continues to expect earnings before taxes to remain at the previous year's level. This implies that the higher earnings will be used for investments in personnel, administration and IT, which will be accompanied by higher costs. This was already visible in the development of the first half of 2021, where a constant development was reported for the net profit for the period despite a significant increase in revenues.

In our forecasts (see research study Anno of July 13, 2021) we had already assumed rising sales and a stable development of the after-tax result. However, based on the 2021 half-year figures, it is apparent that at least our top-line forecasts are too low. We are therefore raising both our estimates for net interest income and our forecasts for other income. In other income, we have combined fee and commission income as well as income from investments and income from the trading portfolio. While net interest income should benefit from the increase in business volume, we expect higher income from asset management (income in connection with the UmweltSpektrum Mix fund and other planned fund products). This results in a higher starting point for the coming financial years and, thus, we are also slightly raising our revenue estimates for financial years 2022 and 2023.

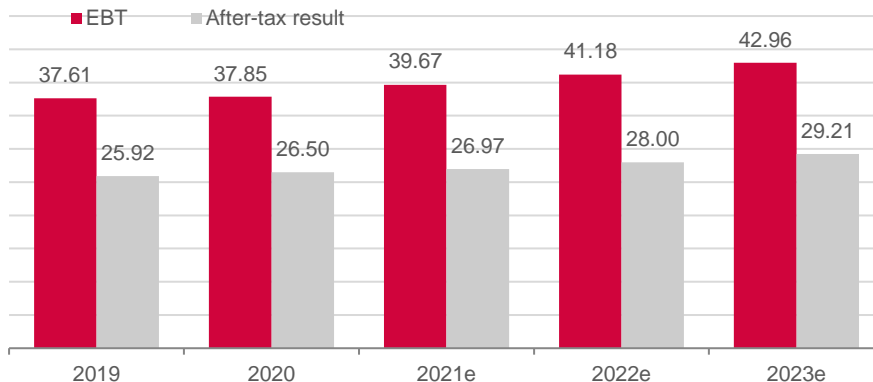
Forecast Net interest income and other income (in € million)



Source: GBC AG

Despite higher revenue forecasts, there are only minor changes to our earnings estimates, in line with corporate guidance. We are assuming continued disproportionate cost increases, driven in particular by an already implemented regulatory-related expansion of the workforce. We also anticipate rising personnel expenses and higher administrative expenses in the current financial year, so that the bottom line is likely to be a comparatively constant earnings trend.

Forecast EBT and EAT before allocation to the fund for banking risks (in € million)



Source: GBC AG

Rating

For the valuation of UmweltBank AG, we have used a residual income model, whereby the difference between the return on equity and the cost of equity is used to determine the surplus return of the estimation periods. In doing so, we have formulated concrete expectations for the estimation periods of the three financial years 2021e - 2023e with regard to the annual surpluses and the resulting changes in equity. The expected returns on equity can be derived from this. The residual income of the business year can be derived from the generated surplus return of a period. The expected residual income is then discounted to the valuation date with the cost of equity. To determine the terminal value, we apply a premium to the current book value.

$$\text{Fair company value} = EK_0 + \sum_{t=1}^T \frac{(ROE_t - r)EK_{t-1}}{(1+r)^t} + \frac{P_T - EK_T}{(1+r)^T}$$

EK = Equity

ROE = Return on equity

P = Premium on book value

r = Cost of equity capital

T = estimation period

T = last estimation period

Determination of the cost of capital

The relevant discount rate for use in the residual income model is the cost of equity. To determine the cost of equity, the market risk premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to the Svensson method. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points. The currently used value of the risk-free interest rate is 0.25 % (previously: 0.25 %) as our assumed lower limit.

We use the historical market risk premium of 5.50 % as a reasonable expectation of a market risk premium. This is supported by historical analyses of stock market returns. The market premium reflects the percentage by which the stock market is expected to yield better than low-risk government bonds.

The beta calculation was based on the historical price data of UmweltBank AG (monthly price development over the past four years). We used the SDAX price index and the STOXX® Europe 600 Banks price index as comparative indices and averaged them in the regression analysis over a period of five years. On this basis, we determined a beta of 0.51 (previously: 0.51), which we also adjusted and smoothed in accordance with *Blume's* work. Using the assumptions made, we calculate a cost of equity of 3.06% (previously: 3.06%) (beta multiplied by risk premium plus risk-free interest rate).

Valuation model and valuation result

	31.12.20	31.12.21e	31.12.22e	31.12.23e	Final value
Equity	292.04	308.78	325.93	344.29	
Net income for the year	26.50	26.97	28.00	29.21	
ROE (after taxes)		8.98%	8.82%	8.72%	8,72%
Cost of equity		3.06%	3.06%	3.06%	3,06%
Excess return		5.92%	5.76%	5.66%	5.66%
Book value factor		2.93	2.88	2.85	2.85
Residual income		17.28	17.80	18.44	654.79

According to our valuation model, UmweltBank AG should be able to achieve a sustainable return on equity (after taxes) of 8.72% in relation to the equity shown in the balance sheet. Assuming a cost of equity of 3.06%, a sustainable excess return of 5.66% or a book value factor of 2.85 should be generated in the terminal value. To determine the terminal value, we have therefore applied a premium over the carrying amount of 2.85.

Present value of residual income 2022 and 2023	€ 34.63m
Present value of residual income Terminal value in € million	€ 616.48m
Total present values in € million	€ 651.11m
Shares outstanding in million	€ 31.01m
Fair enterprise value per share in €	21.00 €

The sum of the discounted residual income results in a value of € 651.11 million on the basis of the target price of 31 December 2022. In view of an outstanding number of shares of 31.01 million, a fair enterprise value per share of € 21.00 (previously: € 20.73) is calculated. The increase in the target price is primarily due to the increase in the forecasts for the current fiscal year 2021 and, based on this, a slight increase in the estimates for the next two fiscal years 2022 and 2023.

Compared to our last research study (see study dated 13/07/2021), the share price of UmweltBank AG has increased by 19.6%. Therefore, our model result shows no further upside potential compared to the current share price of €21.10, so we downgrade our rating to HOLD (previously: BUY).

ANHANG

I.

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BUY	The expected return, based on the derived target price, incl. dividend payments within the rel 10%.
HOLD	The expected return, based on the derived target price, incl. dividend payments within the rel 10% and < + 10%.
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The analysts responsible for this analysis are:

Cosmin Filker, Dipl. Betriebswirt (FH), deputy. Chief Analyst
Marcel Goldmann, M.Sc., M.A., Financial Analyst

Other person involved

Jörg Grunwald, Board Member

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